

*Measuring the Pulse of Africa
& domestic resource mobilization*
African Economic Outlook 2010

Africa 2009-11
Positive signs after the crisis

Abebe Shimeles
Principal Research Economist
July 7, 2010
The Brookings Institution



Lead partner
(since 2007/08)



Other partners



Experts Network

= 10 Independent African Think Tanks

Financial partners

(European Development Fund)



From 47 to 50 countries

= 99.5% of Africa's GDP

= 97.3% of its population

Focusing on key structural issues every year

Special annual focus:

2003: Privatisation

2004: Energy

2005: SMEs

2006: Transport

2007: Water and sanitation

2008: Technical & vocational skills development

2009: Innovation and ICT

2010: Public Resource Mobilisation and Aid



Overview

1

Macroeconomic Outlook

2

Drivers of Growth

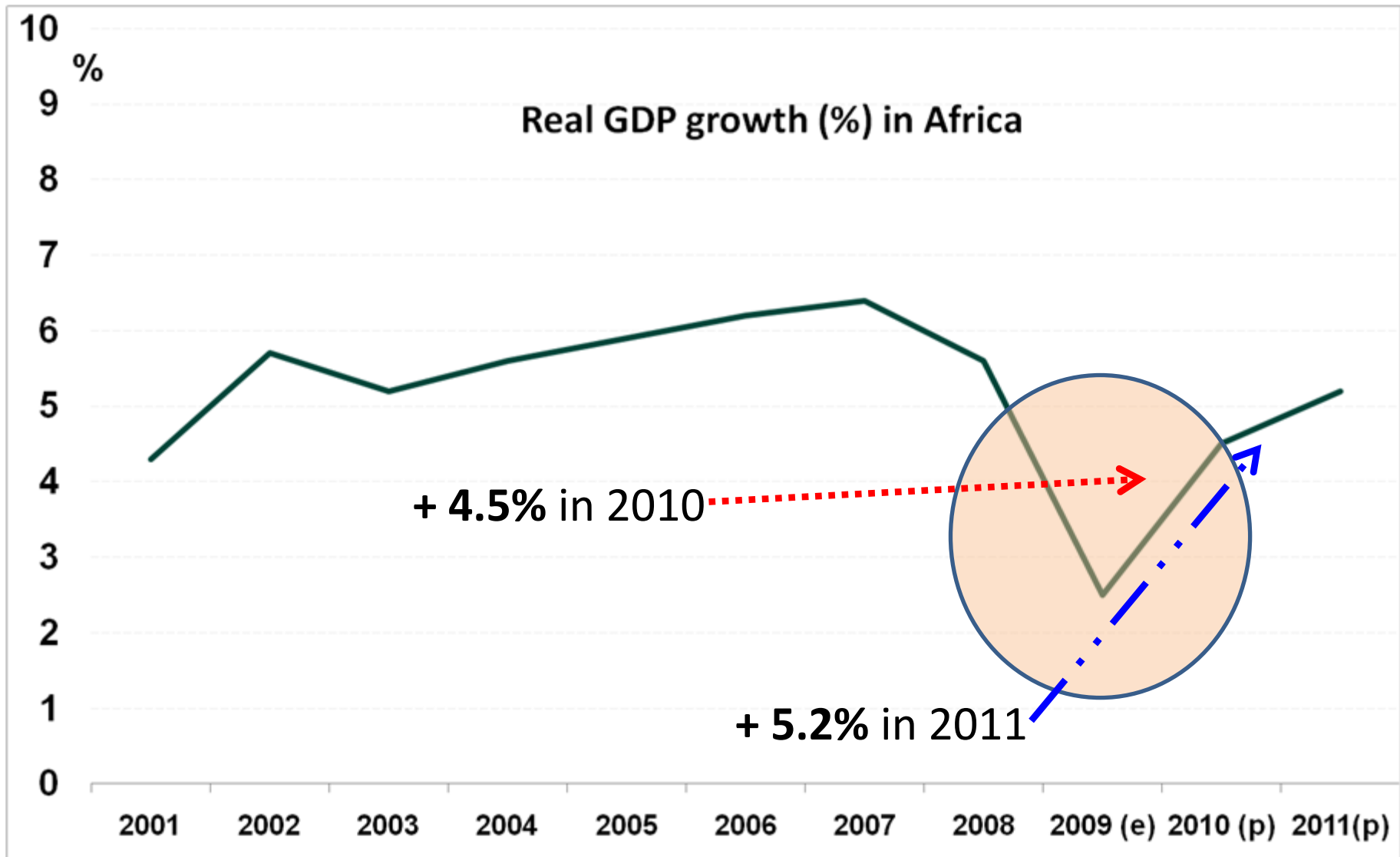
3

The Global Crisis and Africa's Resilience

4

Challenges and Risks Ahead

The outlook is generally positive...

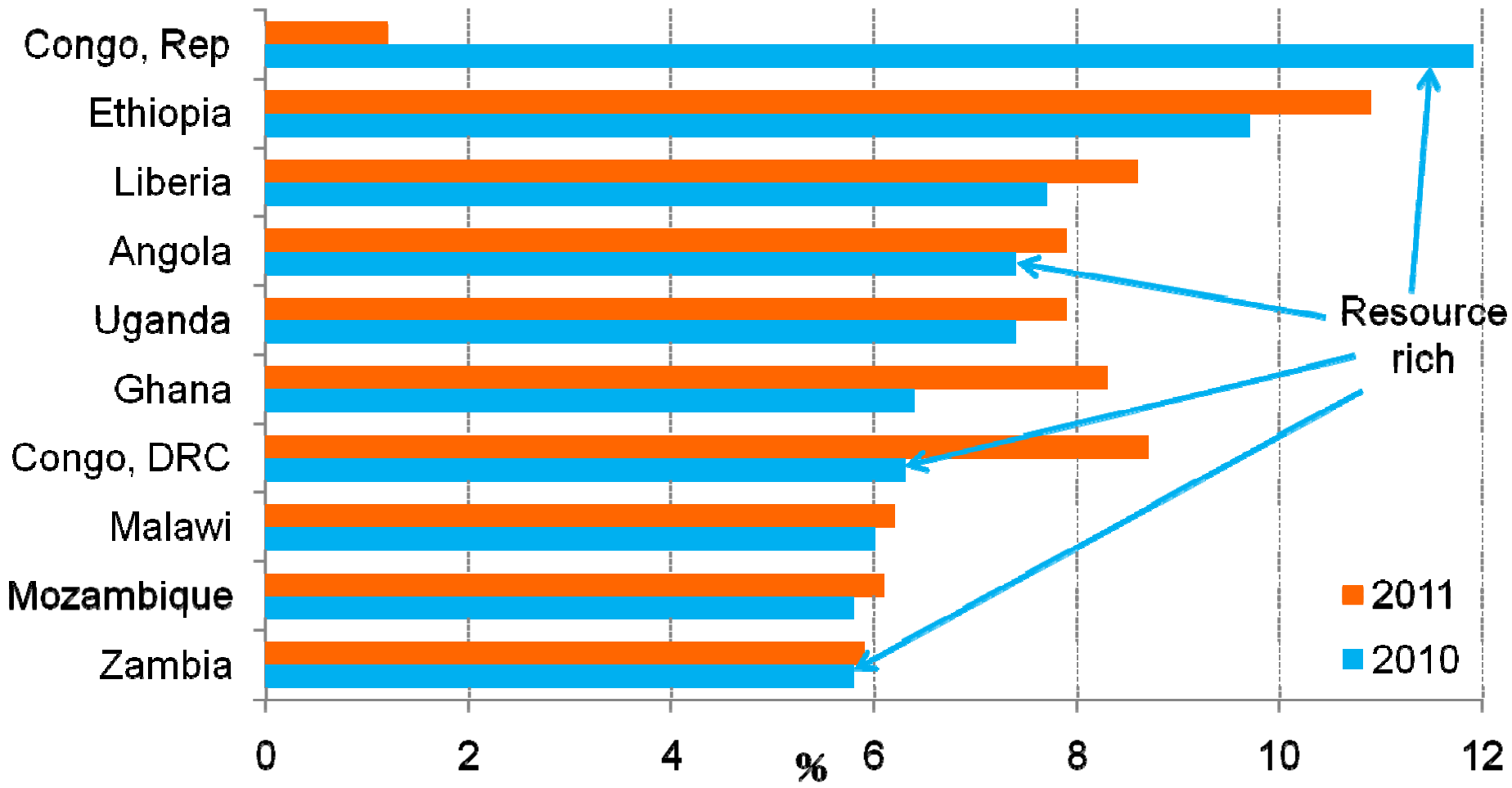


Differentiated performance across the continent

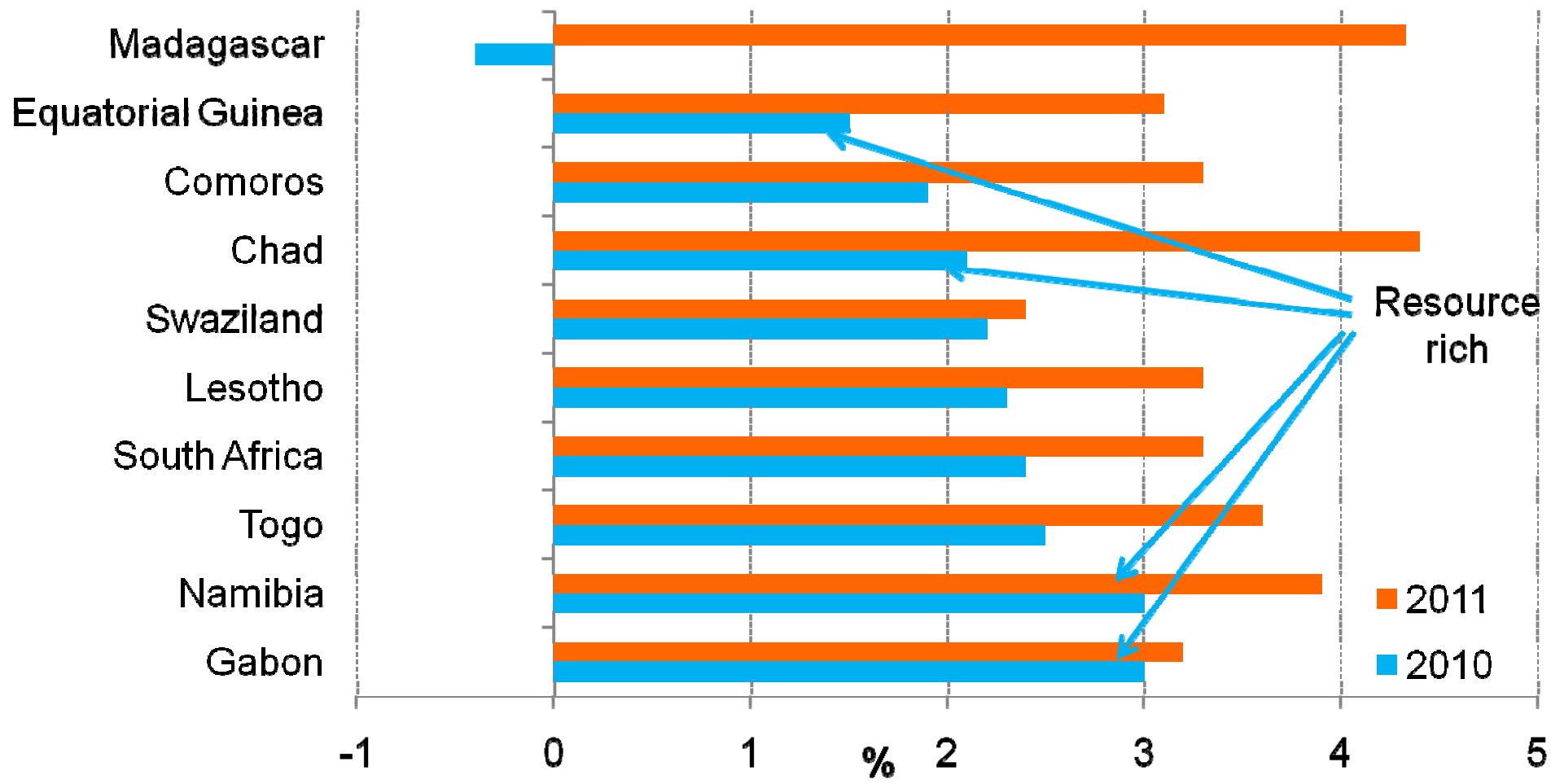
Real GDP Growth

	March 2010 estimates			
	2008	2009(e)	2010(p)	2011(p)
	<i>Real GDP Growth (%)</i>			
Central Africa	4.8	1.7	4.4	4.4
Eastern Africa	7.2	5.8	6.2	6.4
Northern Africa	5.3	3.8	4.8	5.4
Southern Africa	5.4	-1.1	3.4	4.3
Western Africa	5.5	3.0	4.4	5.5
Africa	5.6	2.5	4.5	5.2
<i>Additional Areas of Differentiation</i>				
<i>North Africa (including Sudan)</i>	5.4	3.8	4.8	5.3
<i>Sub-Saharan Africa</i>	5.7	1.6	4.3	5.2
<i>Oil-exporting countries</i>	6.0	3.1	4.9	5.5
<i>Oil importing countries</i>	5.0	1.8	4.0	4.8

Projected 10 fastest growing countries in 2010

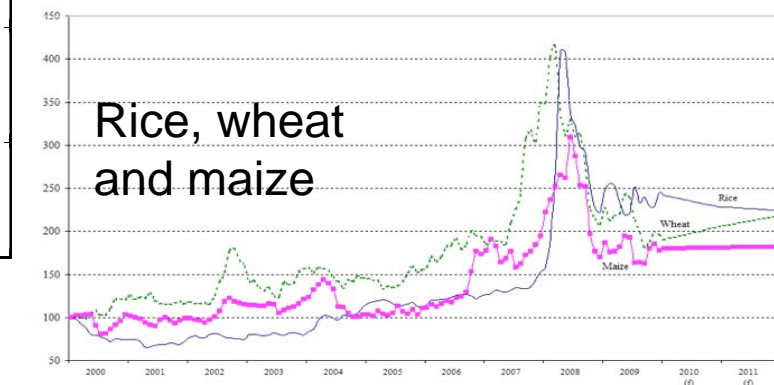
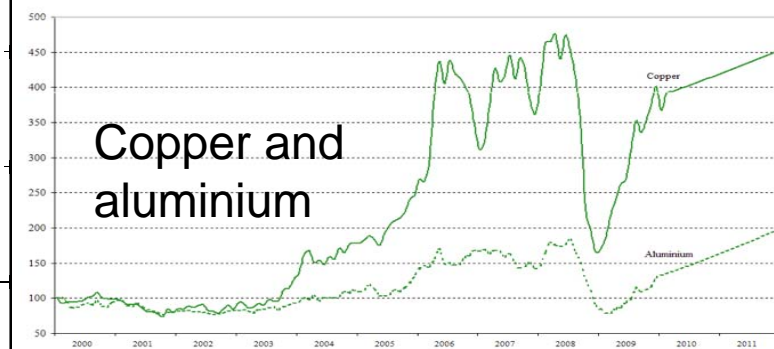
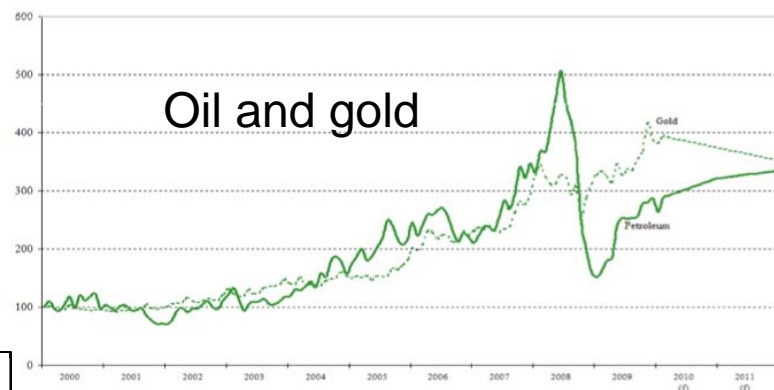
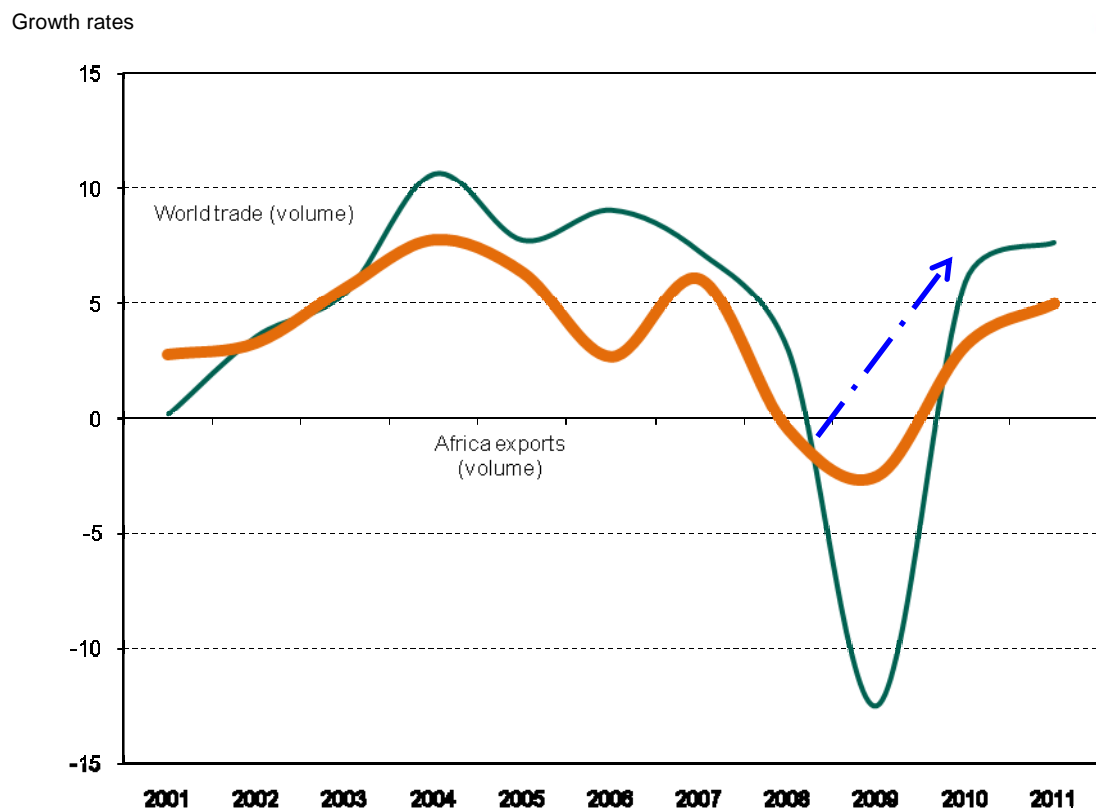


Projected 10 slowest growing countries in 2010



The drivers of growth still largely trade related...

Improving commodity prices and volumes

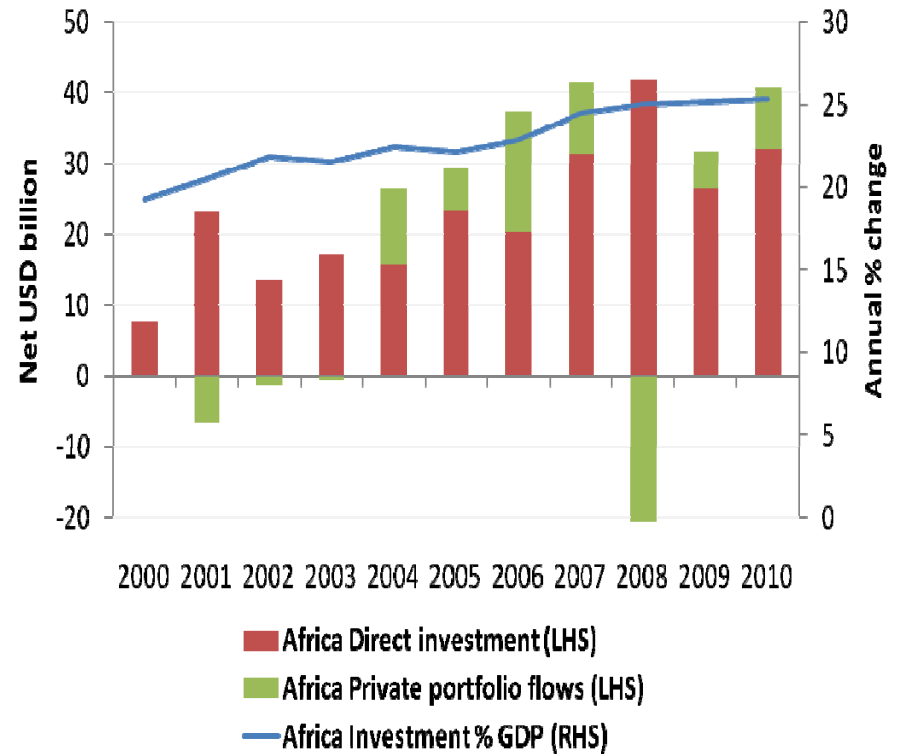


Private financial flows are to rebound...

FDI flows to Africa 2000-2009

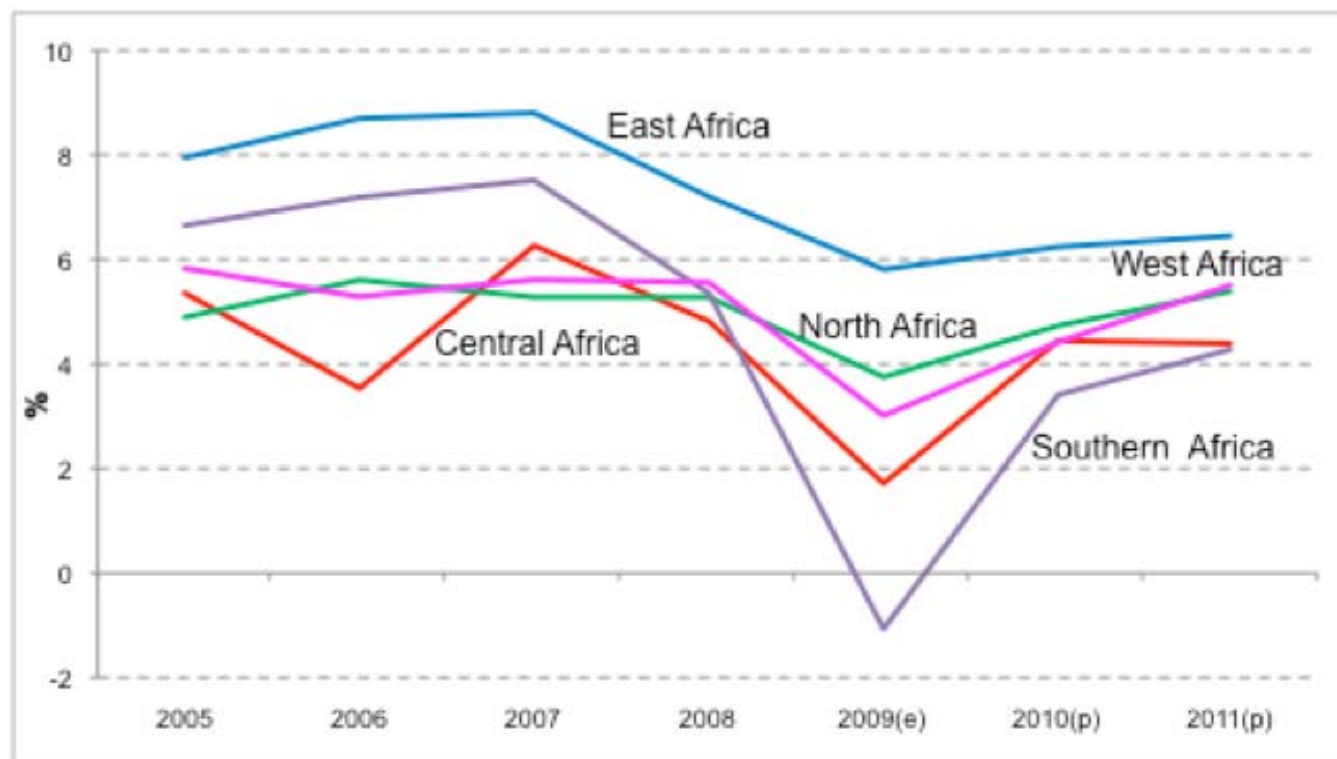


Investment in Africa



In 2009, the crisis slashed economic growth ...

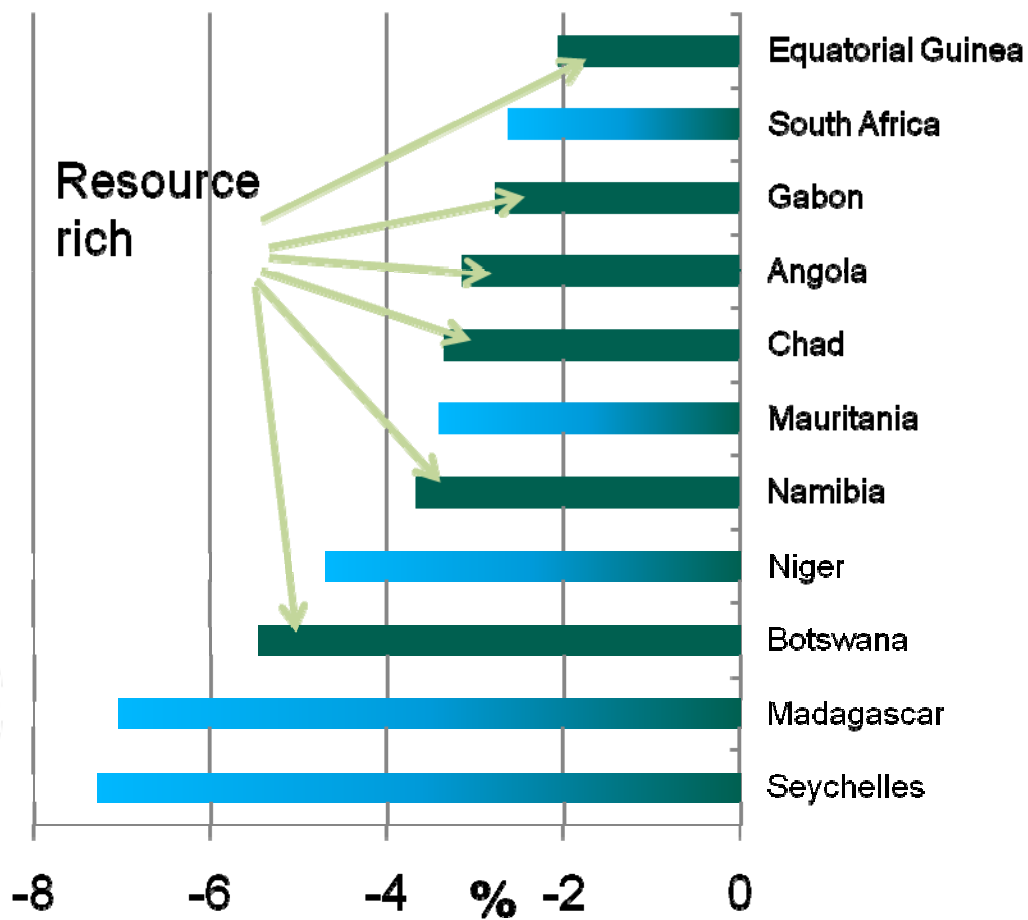
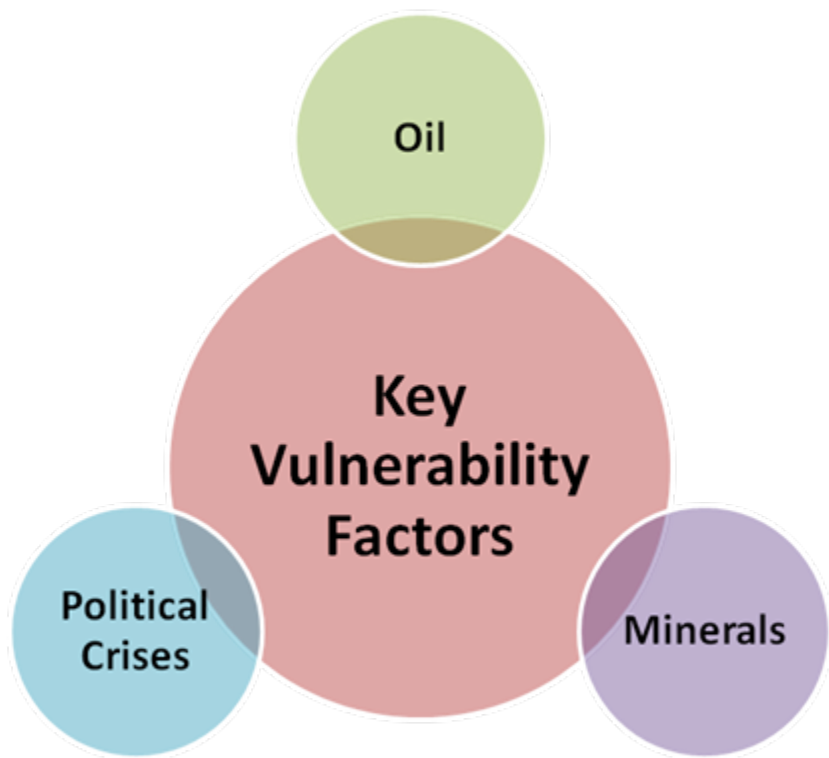
Real GDP Growth



... however, the continent continued growing and the impact was unequal across regions

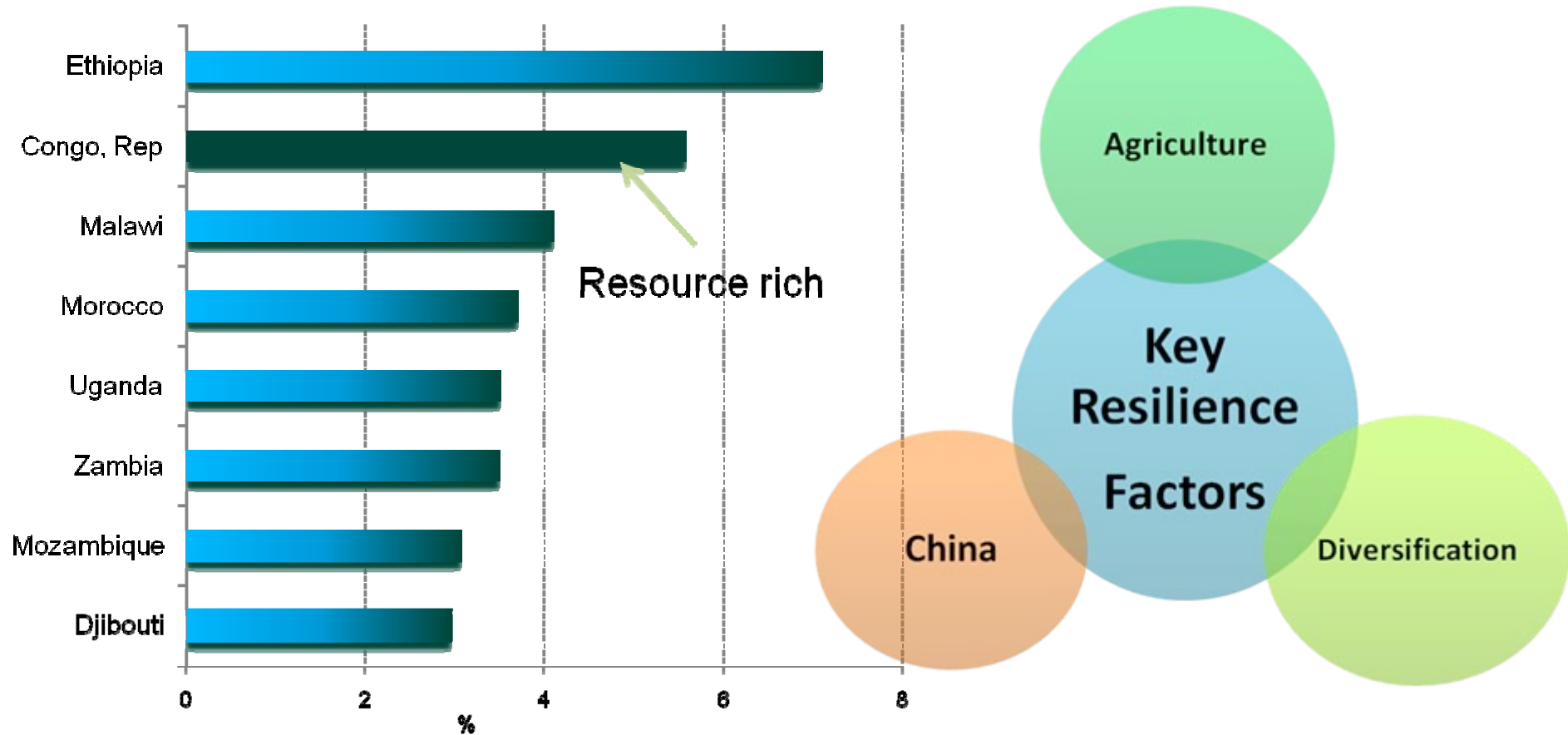
Whereas some countries saw negative growth...

11 countries experienced declines in GDP per capita of 2% or more in 2009

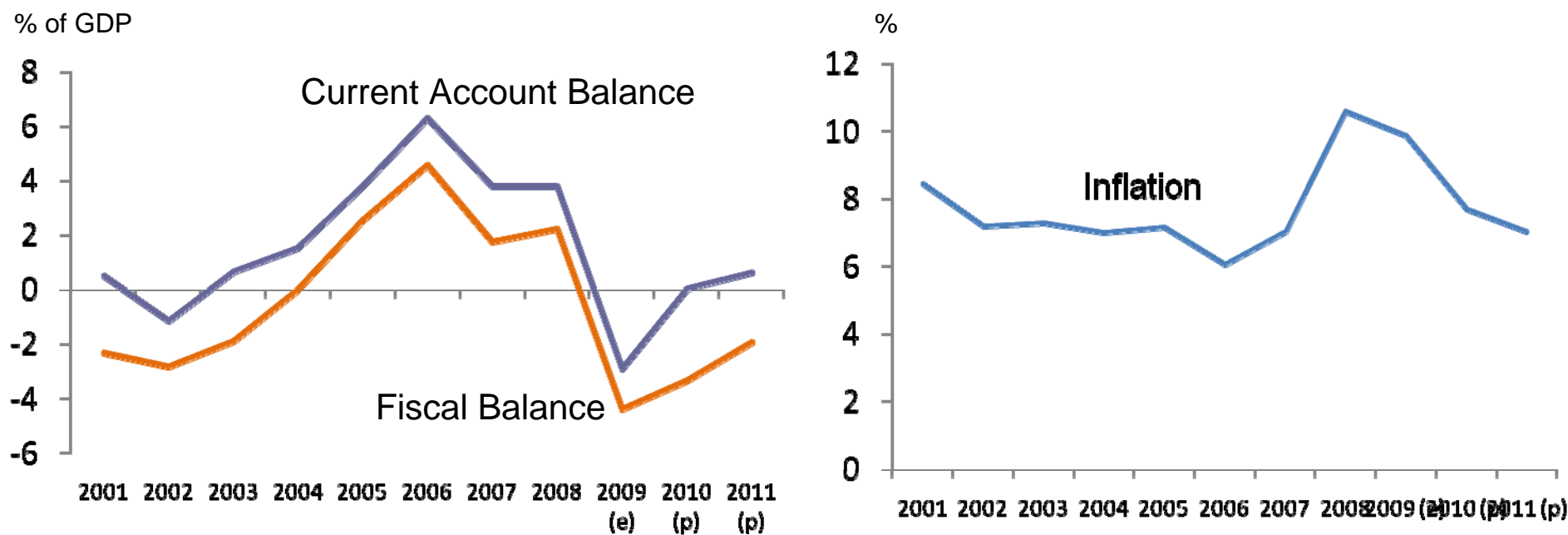


... many others have proved resilient

Several countries saw GDP per capita increase between 3% and 7% in 2009



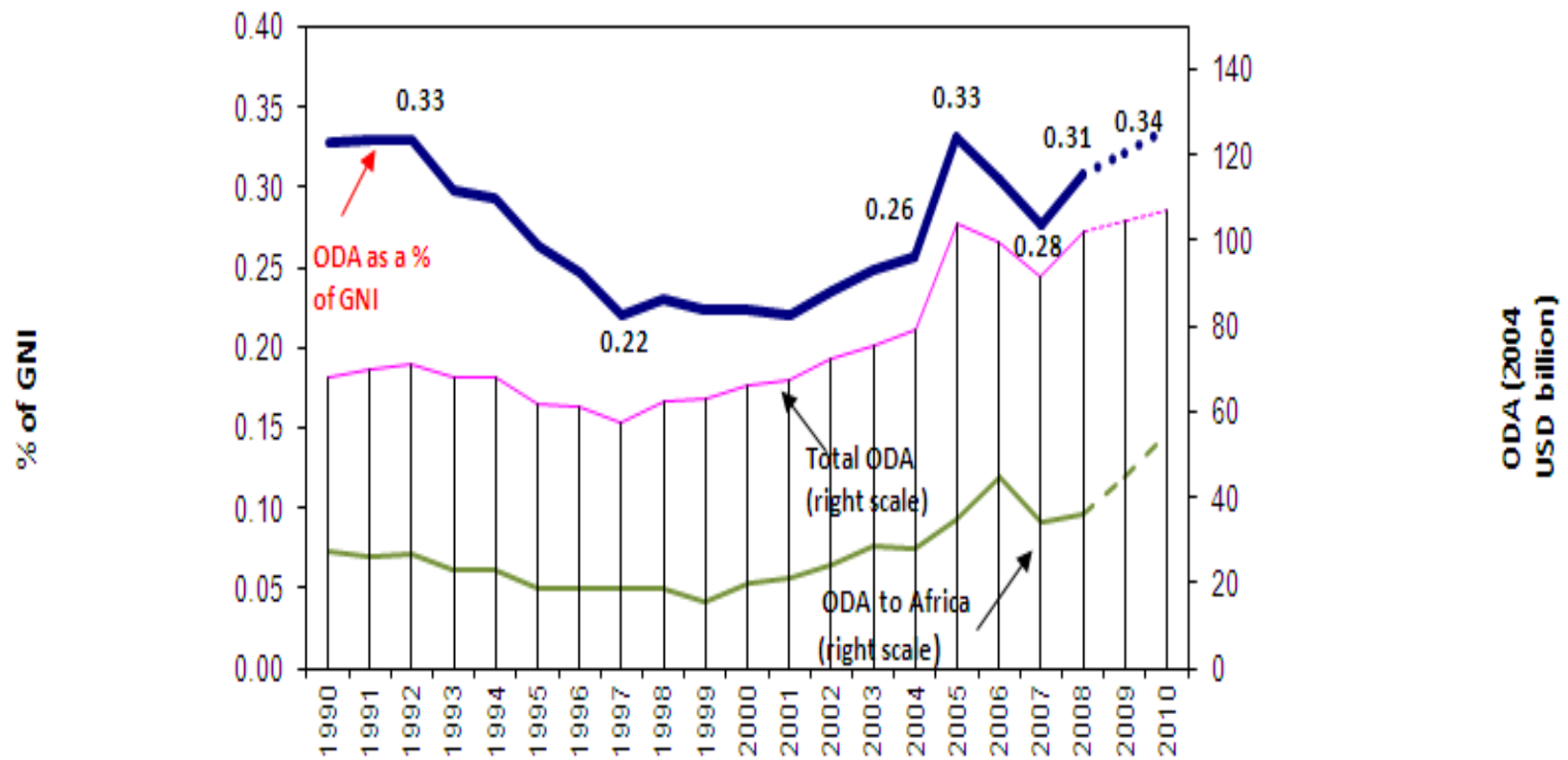
Economic policies key to resilience



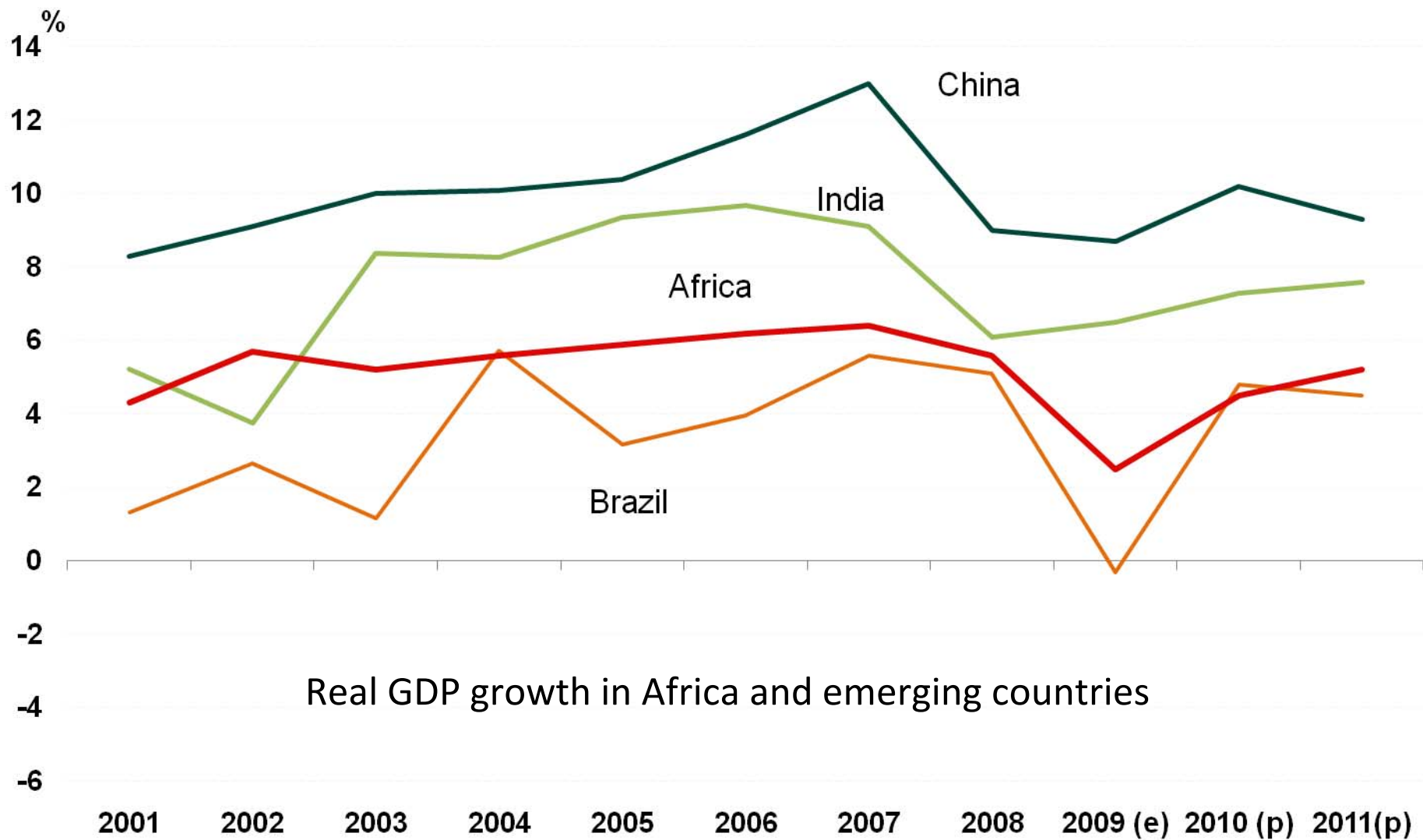
Macro balances deteriorated in 2009,
but are expected to improve in the mid-term

Supportive aid flows

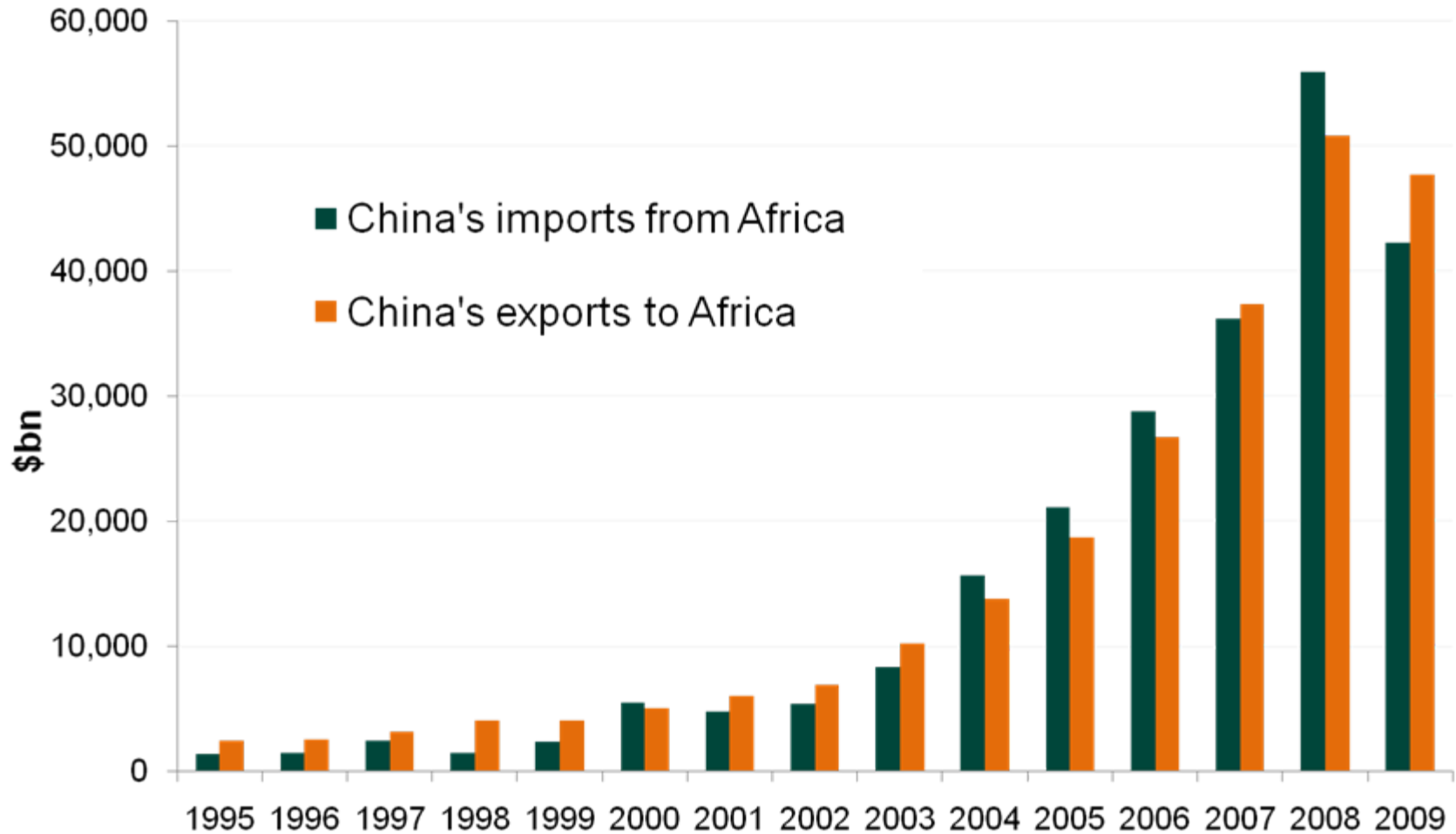
DAC members' net ODA 1990 - 2008 and DAC Secretariat simulations of net ODA to 2009 and 2010



Dynamic emerging partners have also supported growth and assisted with the recovery

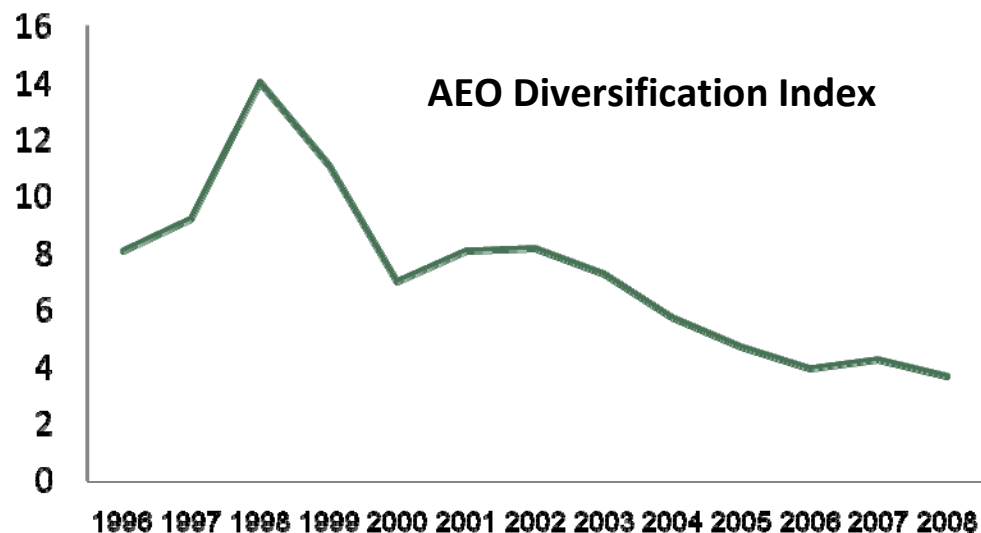
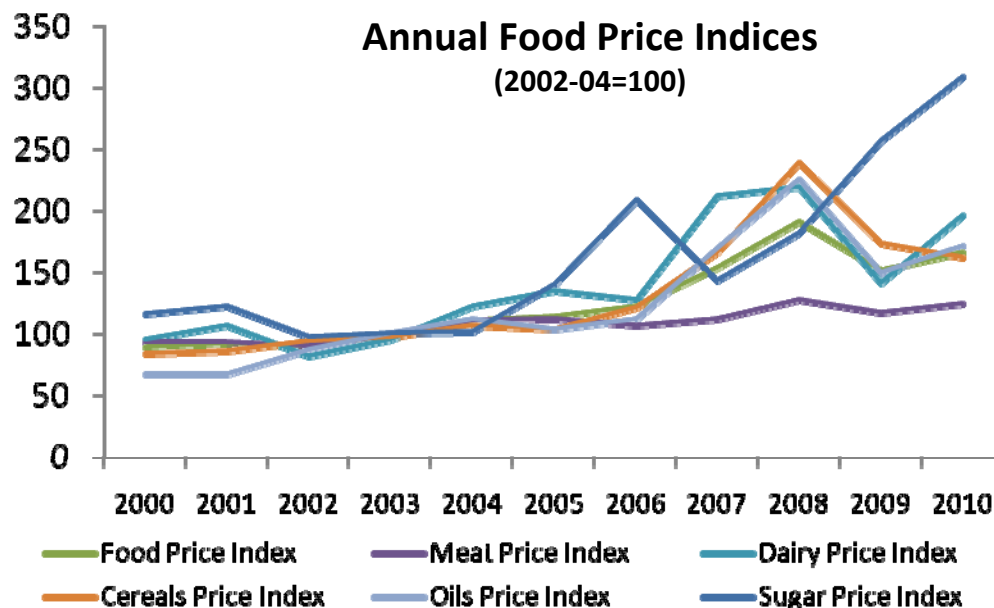


China's role stands out



Key risks

1. Global economy not recovering as expected
2. Exit strategies might be politically difficult and harm fundamentals
3. Expectations of food prices rising again → new social tensions?
4. Commodity driven growth might bring further specialisation and growth volatility



1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008

Beyond crisis recovery

Address the structural problems that existed before the global crisis and constrain the potential of sustained endogenous growth, in particular:

- Further improving political and economic governance
- Improving infrastructure
- Reducing barriers for intra-African trade
- Combating inequalities and poverty

... including through improved domestic resource mobilisation

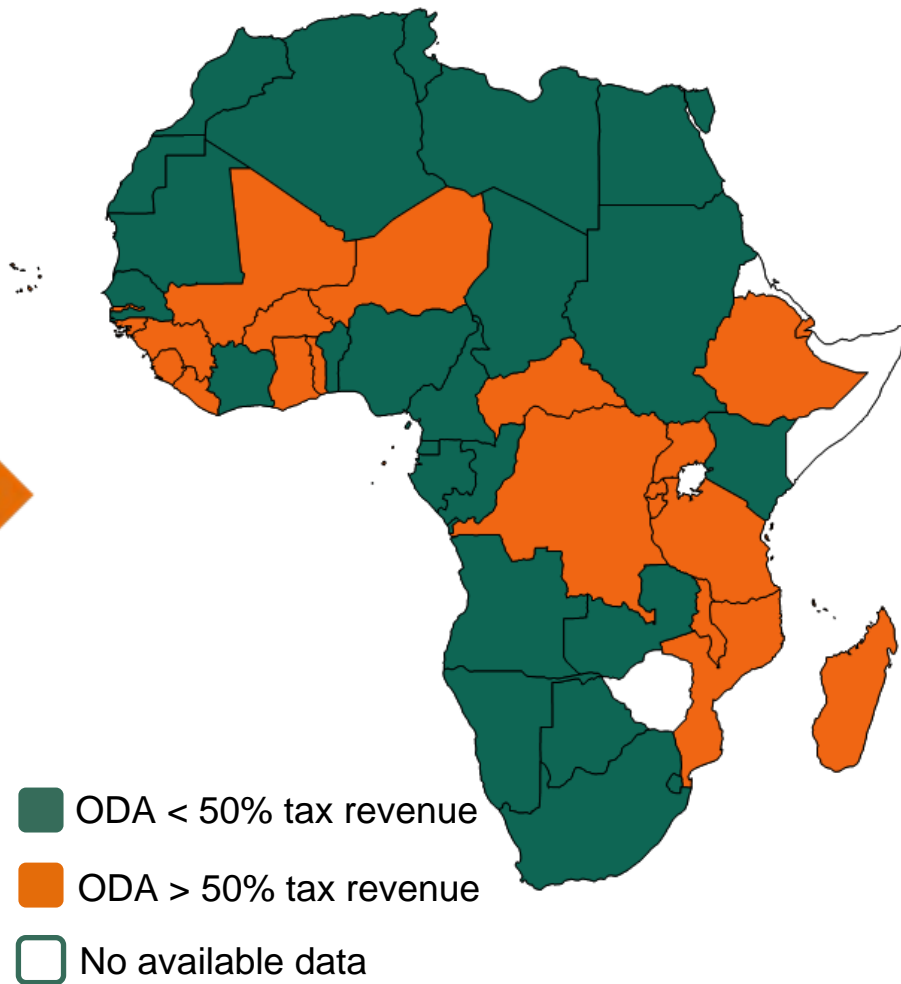
Public Resource Mobilization and Aid

1 Why Public Resource Mobilization

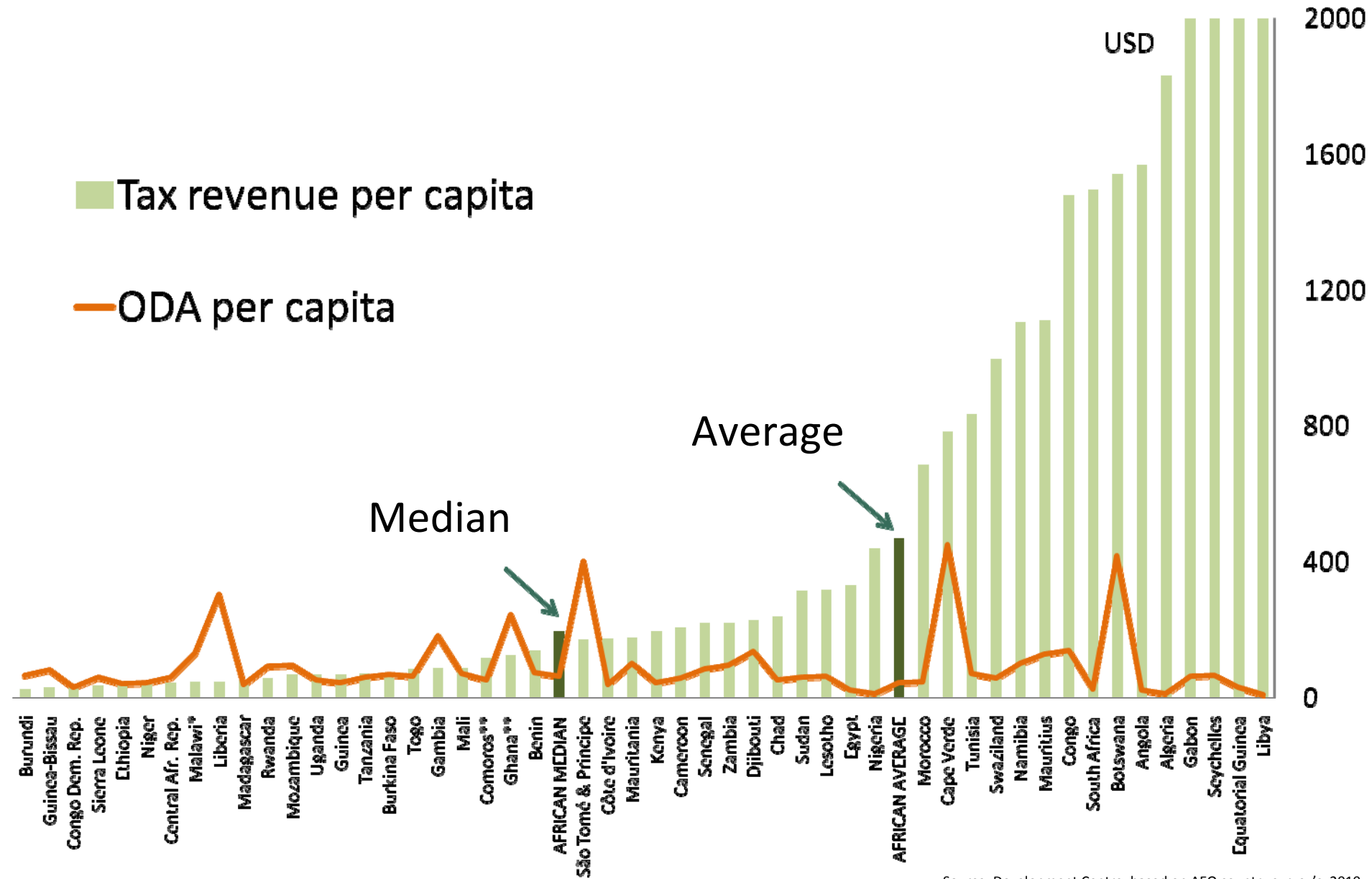
2 Taxes in Africa: some stylized Facts

3 Policy options

1. WHY PUBLIC RESOURCE MOBILIZATION



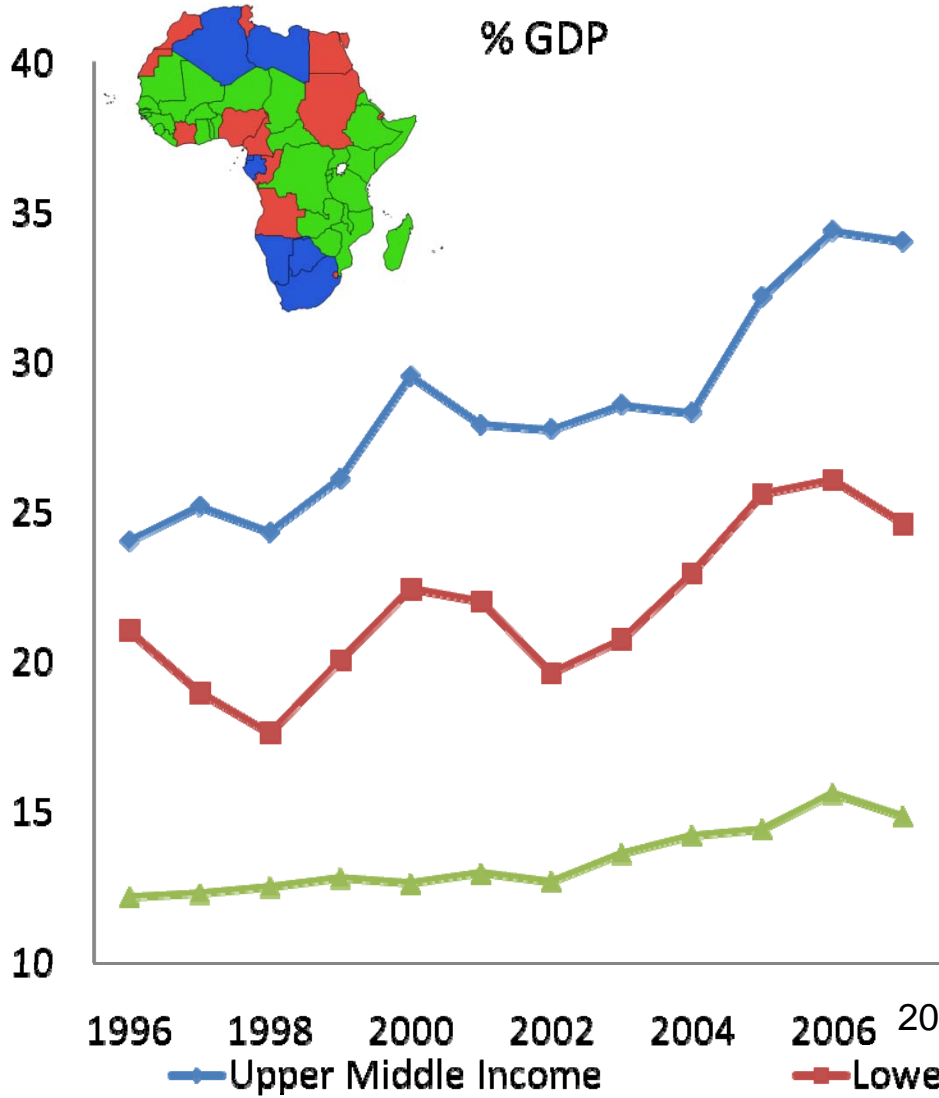
2. SOME STYLED FACTS



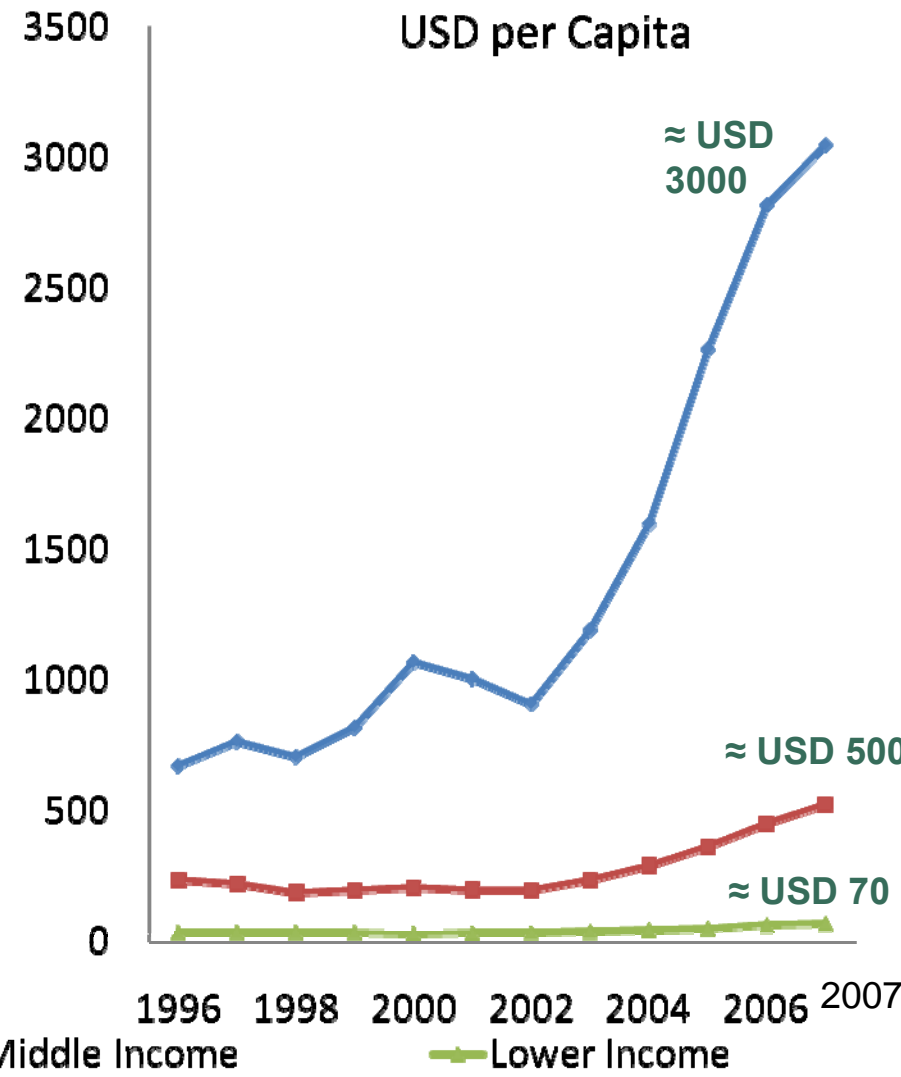
Source: Development Centre, based on AEO country survey's, 2010.

2. SOME STYLISTED FACTS

Taxes as a share of GDP in Africa



Average tax collection per capita in Africa

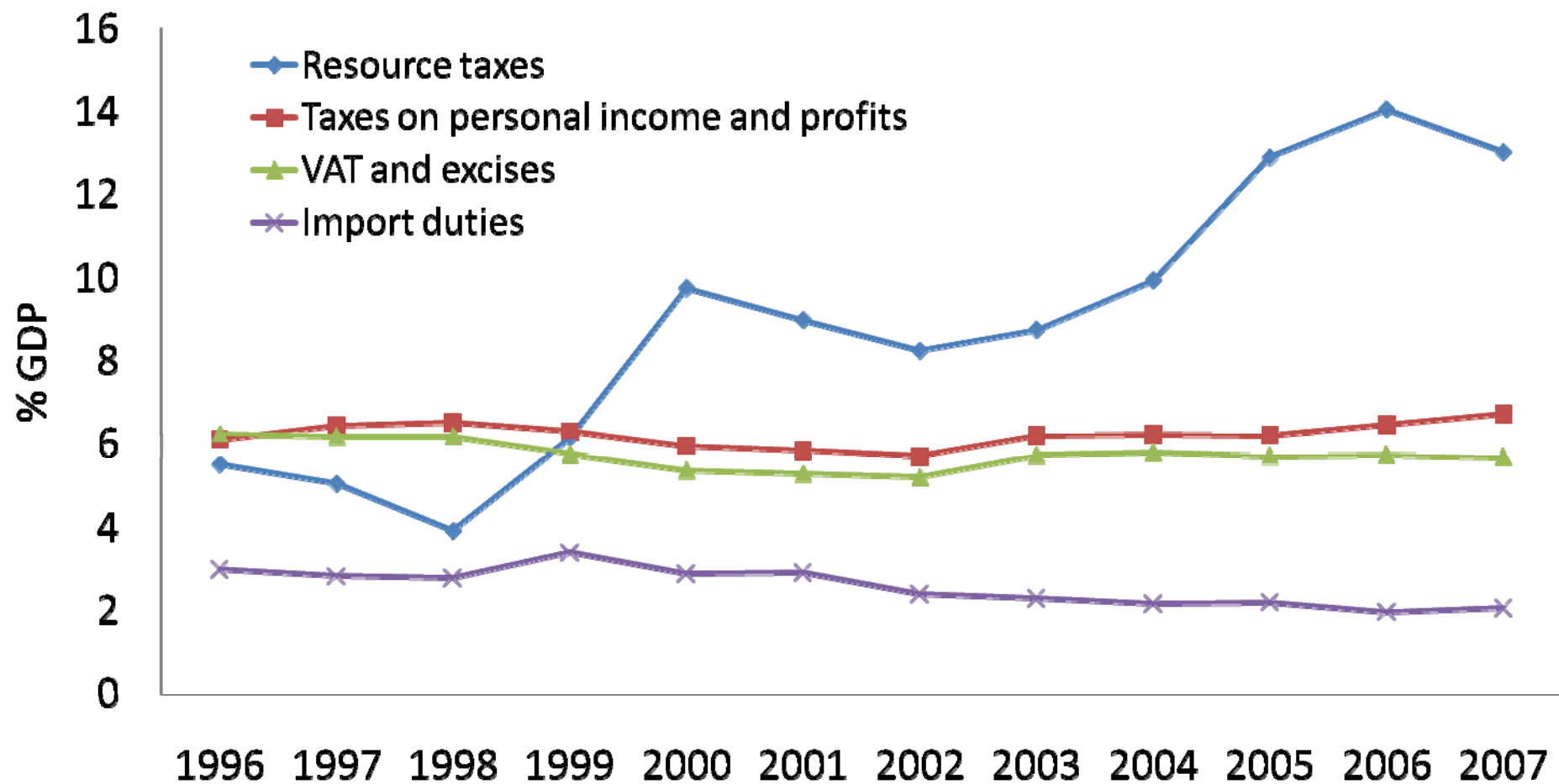


Source: Development Centre, based on AEO country survey's, 2010.

2. SOME STYLISTED FACTS

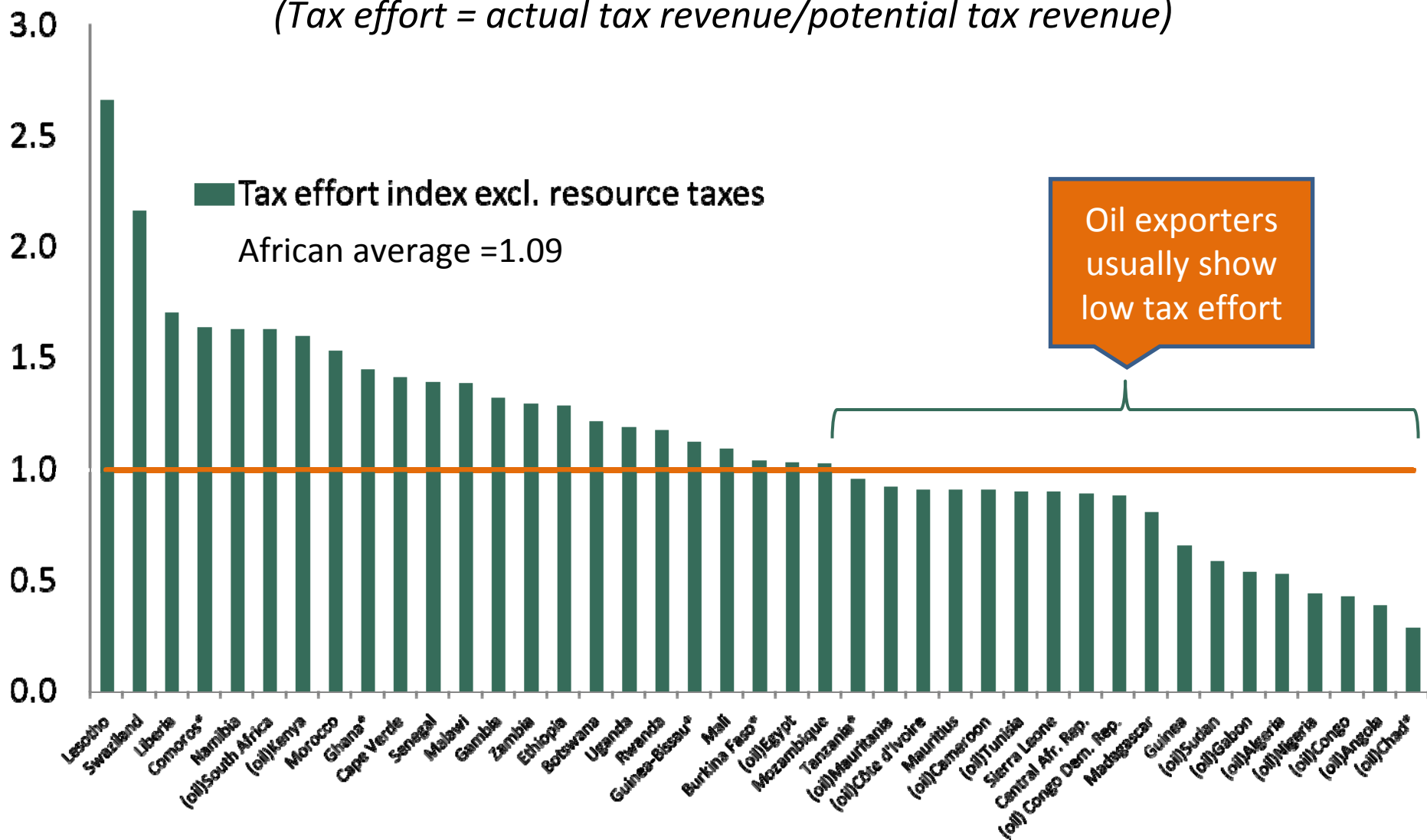
Compared to Germany:

Tax share	= 36.4% of GDP
Taxes on income and profits	= 11.6% of GDP
VAT	= 10.5% of GDP
Residual taxes	= 14.3% of GDP



2. SOME STYLED FACTS

Some non resource-rich countries have performed better in terms of tax effort
(*Tax effort = actual tax revenue/potential tax revenue*)



Four Challenges for African Tax Policy Makers

1. Inadequate **capacity**

Small staff, low pay, IT, governance ...

2. Low to very low **fiscal legitimacy**

Health, infrastructure, education ...

3. Shallow **tax base**

Informal sector = about 75%

4. Unbalanced **tax mix**

Some overtaxed, some undertaxed

Micro, small and medium enterprises = low fiscal potential

Micro / small informal



- High collection costs
- Low fiscal returns
- Already pay VAT

Formal SMEs



- Few exemption benefits
- Tend to be abusively taxed
- « Missing middle »

Big transactions and enterprises have a high fiscal potential

Big informal transactions



- Fraud and exemptions

Low collection costs

High fiscal returns

Multinationals



- Effective tax rates < nominal tax rates
- Lack of transparency

At national level

In the short run

- **Tax big informal and formal transactions better**
 - **Fight fraud and fiscal evasion**

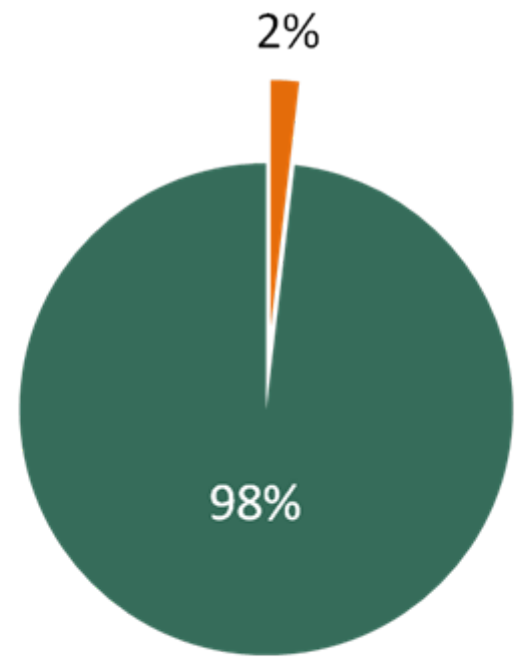
In the medium / long run

- **Stimulate private sector development**
- **Moderate, broad-based effective tax rates**
 - **Strengthen administrative capacity**
- **Build fiscal legitimacy by improving quality of expenditure**

Collection costs as a % of collected tax revenues

Country	Average Cost - revenue ratio
Sudan	5.7%
Ethiopia	5.3%
Congo RDC	5.2%
Rwanda	3.2%
Tanzania	3.2%
South Africa	1.2%
Argentina	1.8%
Ecuador	1.0%
Costa Rica	0.8%

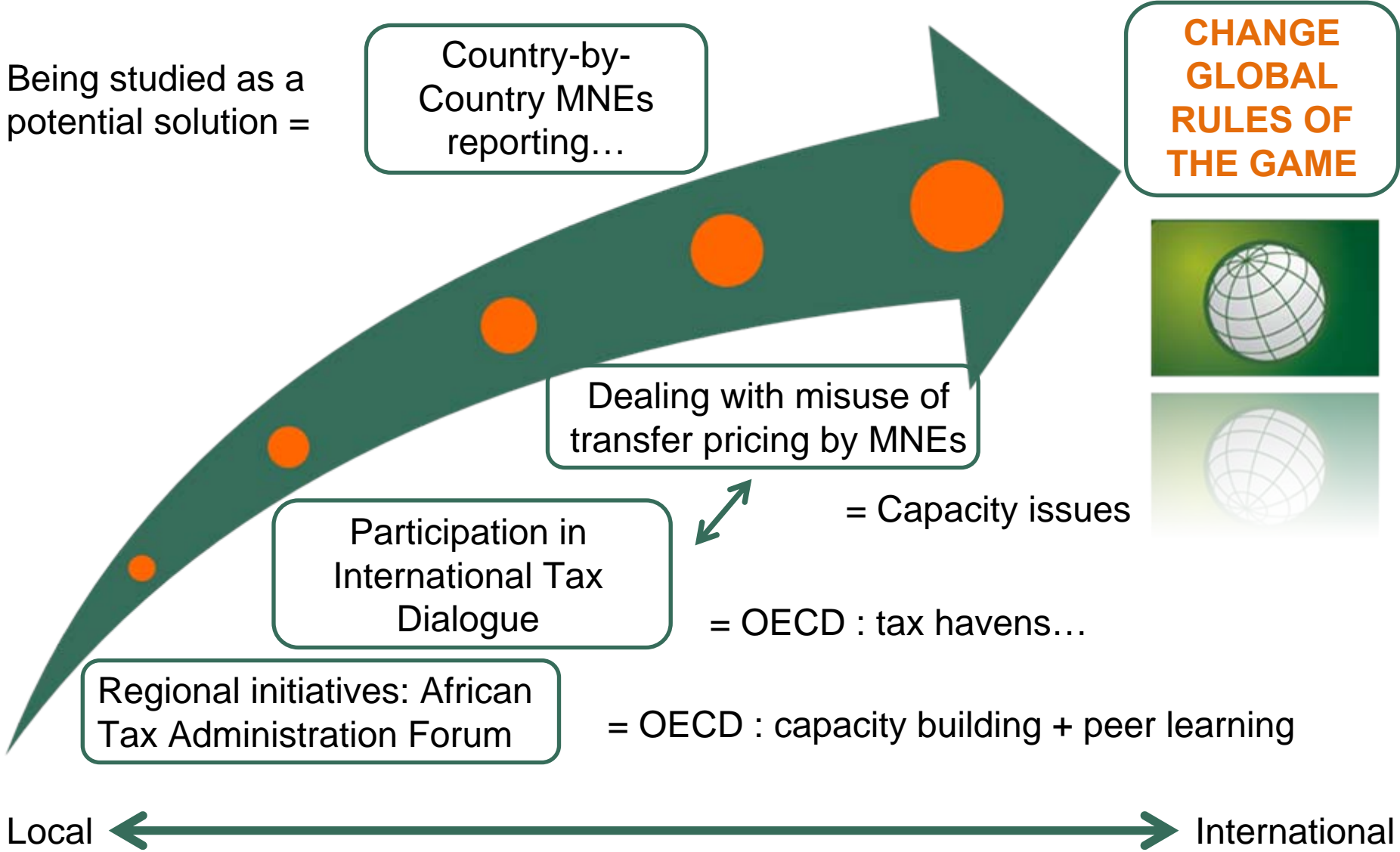
yet



- Technical cooperation to "Public Sector Financial Management" in Africa
- Total technical cooperation to other sectors in Africa

3. POLICY OPTIONS

The voice of Africa must be heard in the international tax dialogue



Thank you

 www.AfricanEconomicOutlook.org

